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UNCLAS SECTION 01 OF 03 ABU DHABI 003925

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STATE FOR EB/TPP/ABT EDWARD HEARNEY, COMMERCE FOR ITA/OTEXA
MARIA D'ANDREA, USTR FOR ABIOLA HEYLIGER

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TAGS: KTEX ECON ETRD TC
SUBJECT: TROUBLED UAE TEXTILES AND APPAREL SECTOR PINNING
HOPES ON US-UAE FTA

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11. SUMMARY: The UAE textile industry is slowing down due to increased international competition sparked by the elimination of the worldwide textile quotas. The Ministry of Economy and Planning and senior officials from five textile factories in the Jebel Ali Free Zone (AlPine Creation, Fine Textiles Company, Emirates Textiles LTD., ATRACO Industrial and Carolina Fabrics LTD.) are anxious about current and future prospects of the UAE textile industry. There are no direct measures by the UAE to increase competition, although Dubai and Sharjah emirates encourage this sector through exhibitions and some new projects. The UAE has not implemented safeguards to reduce imports of Chinese textiles, and US safeguards to restrict the growth of Chinese import growth have no notable effect on the UAE textile and apparel export prospects. The industry is counting on benefits from an anticipated FTA between the US and the UAE to maintain the industry as an important part of the UAE's manufacturing sector. End Summary.

Updated Textile and Apparel Statistics

12. Official data for 2004 is not available regarding the total textile and apparel production. However, based on analysis of Central Bank information, the textile and apparel sector comprised an estimated 10.16 percent of the UAE non-oil economy. In 2004, the total manufacturing industrial production in the UAE was 13.5 billion USD, which comprised 57.90 percent of the total industrial sector, according to the Ministry of Economy and Planning's statistics. In 2004, textiles and apparel comprised 7.10

percent of the UAE's imports, 4.82 percent of its non-oil exports, and 9.59 percent of the country's re-exports, based on estimated data by the UAE Central Bank.

¶13. Analysis based on time series data for 2001 onward shows a negative slope in the trend of the percentage of textile and apparel's trade compared to total non-oil trade. The UAE yearbook reports that the UAE textile industry is valued at 2.4 billion USD annually. Textiles are the second largest component of Dubai's economy, including imports and exports.

¶14. According to statistics from Ministry of Finance and Industry and Ministry of Economy and Planning, in 2004, there were 231,275 individuals employed in the manufacturing sector, which comprised 9.40 percent of the total UAE work force. Of the manufacturing employees, 1.85 percent were employed in textiles (4,286 individuals), and 11.80 percent were employed in the apparel industry (27,297 individuals).

Anxiety Regarding International Competition

¶15. Textile and apparel manufacturers are very anxious about international competition as a result of the January 2005 elimination of the worldwide textile quota. The main competitor countries for the UAE textile and apparel sector are China, India, Egypt, Bangladesh, Jordan and Kenya. As a result of international competition from these countries, local textile and apparel manufacturers have lowered the price of their products. One official from the Ministry of Economy stated that the demand by local textile and apparel manufacturers on certificates of origin has decreased, which indicates that fewer UAE companies are exporting products.

¶16. Due to international competition, many factories have closed their businesses. Between 2003 and 2005, 57 textile factories closed or relocated from the UAE to countries with lower costs and which receive preferential treatment from the US (such as Jordan and Bahrain, in order to take advantage of their FTAs with the United States) according to officials from the UAE-based Fine Textile Company.

¶17. During March 2005 meetings between US FTA textile negotiators and officials from three textile factories in the UAE's Jebel Ali Free Zone, company executives noted that they are pessimistic about the future of the textile industry in the UAE. They see the UAE textile industry as unable to compete with China, India and Bangladesh because of higher costs in the UAE, particularly with regard to labor and electricity. Officials from Emirates Textiles Limited said that because of competition in the local market and low demand for export, the factory produces less than its full production capacity and sells its products in the UAE market below cost. Company officials pointed out that many textile factories in Jebel Ali have closed. Twelve textile factories recently relocated their business from Jebel Ali to other countries. The number of textile factories in Jebel Ali has decreased from 150 to 95 during the last four years. One company source said that unless the UAE government takes measures to protect the local textile industry, their business will close down in the UAE.

Measures to Face International Competition

¶18. There are no direct measures by the UAE government or private industry to increase textile industry competitiveness in international markets. The Dubai and Sharjah governments, however, are assisting this sector by sponsoring exhibitions, which attract many international textile and apparel manufacturers. The International Middle East Exhibition for Textile, Embroidery and Sewing Machinery and Accessories (ITCE Dubai 2004) was held in September 2004, and coincided with its partner show, Middle East Fashion Textile, Leather and Accessories Exhibition (MOTEXHA

2004), the Middle East region's largest Fashion and Textile trade fair. MOTEEXHA was held September 12-15, 2004, and featured more than 500 exhibitors from 36 countries. Another four-day textile exhibition, "Texpo", was held at the Expo Center in Sharjah this week. Additionally, in 2004, Dubai Government launched a USD 60 million "Textile City" to promote this sector. Textile City will be completed before the end of 2005, and the first phase of the project had already been rented out to more than 90 investors. Officials hope that Textile City will make Dubai a textile industry hub between Asia, Europe and the US.

Safeguards to restrict imports from China

¶19. Ministry of Economy contacts stated that the UAE Government has not implemented safeguards or measures to reduce the growth of imports of Chinese textile products into the UAE. One official said that this issue might be discussed through the upcoming FTA negotiations between GCC states and China.

¶10. Ministry of Economy and private sector reps say that so far the US safeguards to restrict the growth of Chinese imports and the European Agreement with China to limit import growth of certain textile and apparel products have had no notable effect on the UAE textile and apparel export prospects, but they agreed that such measures will enhance future export prospects. Business leaders from across the garment manufacturing industry in the UAE assembled for the Texpo exhibition in Sharjah this week to explore and interact on trade opportunities arising out of the US and European Union decision to impose restriction on certain categories of textile and clothing from China, according to the Emirates News Agency (WAM).

Impact on Labor

¶11. The majority of laborers in the textile sector are expatriates, and the closure of textile and apparel factories and businesses required these workers to leave the country for a minimum of 6 months before they can be re-employed by a new company. Consequently, many textile workers have remained illegally in the country. Ministry of Economy sources report that some companies have retained employees on the payroll in hopes of re-opening businesses, but have stopped paying employee salaries.

Expected Benefits from a US/UAE FTA

¶12. Textile and apparel producers believe that an FTA between the US and UAE will enhance textile exports to US markets by providing preferential advantages and lowering tariffs on UAE textile exports to the US. In addition, an FTA would allow cheaper import of some materials from the US, such as rolls of yarn. Manufacturers believe that the anticipated FTA would enhance the UAE textile and apparel sector by lowering tariffs on UAE textile and apparel exports to the US. Textile and apparel industry sources have stated their concern that many factories in the UAE will close down if US/UAE negotiations are not successful.

¶13. Textile and apparel industry contacts noted that some closed factories are renewing their commercial licenses, awaiting the outcome of the FTA negotiations. Ministry of Economy officials claim that UAE textile and apparel producers will develop their infrastructure once the US and the UAE sign an FTA.

¶14. Comment: The textile sector in UAE is slowing down due to international competition, but is pinning its hopes of revival on the conclusion of a US-UAE FTA.

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